

Message Text

LIMITED OFFICIAL USE

PAGE 01 EC BRU 10333 201856Z

13

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 AGRE-00 L-03 ITC-01 FEA-01

DODE-00 PM-04 NSC-05 SS-15 INT-05 /084 W

----- 012324

R 201714Z OCT 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 2151

INFO ALL EC CAPITALS 2631

LIMITED OFFICIAL USE EC BRUSSELS 10333

PASS AGRICULTURE ELECTRONICALLY

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC INDUSTRY COMPLAINT AGAINST BRAZILIAN SOYBEAN MEAL EXPORTS

1. SUMMARY: THE EC OILSEED CRUSHING INDUSTRY IS ABOUT TO INITIATE A COMPLAINT AGAINST BRAZILIAN SOYBEAN MEAL EXPORTS. INDUSTRY REPRESENTATIVES HAVE ALREADY HELD PRELIMINARY DISCUSSIONS WITH COMMISSION OFFICIALS. THE COMPLAINT WILL ALLEGE THAT BRAZIL INDIRECTLY SUBSIDIZES SOYBEAN MEAL EXPORTS AND THAT SUCH SUBSIDIZATION HAS CAUSED DAMAGE TO THE EC CRUSHING INDUSTRY. EC REGULATIONS PROVIDE FOR THE APPLICATION OF COUNTERVAILING DUTIES IF THE COMPLAINT IS SUBSTANTIATED BY INVESTIGATION. HOWEVER, INDUSTRY OFFICIALS TELL US THEIR GOAL IS TO SPARK EC-BRAZIL NEGOTIATIONS AND PERSUADE THE BRAZILIANS TO MODIFY THEIR PRACTICES. END SUMMARY.

2. THE COMMISSION OFFICIALS HAVE CONFIRMED RECENT PRESS REPORTS THAT THE EC OIL MILLING INDUSTRY FEDERATION (FEDIOL) IS IN THE PROCESS OF INITIATING A COMPLAINT AGAINST BRAZILIAN EXPORTS OF SOYBEAN PRODUCTS. SINCE THE EC CAP FOR OILSEEDS

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 EC BRU 10333 201856Z

DOES NOT CONTAIN A SAFEGUARD CLAUSE FOR OILSEED MEAL, THE

COMPLAINT WILL BE MADE UNDER COUNCIL REGULATION NO. 459/68 WHICH LAYS DOWN GENERAL EC RULES PROVIDING FOR PROTECTION AGAINST DUMPING OR EXPORT SUBSIDIES BY THIRD COUNTRIES. THESE RULES APPLY TO ALL PRODUCTS. A DG I OFFICIAL RESPONSIBLE FOR DUMPING AND COUNTERVAILING COMPLAINTS TOLD US THAT FEDIOL SHOWED A PRELIMINARY PAPER TO THE COMMISSION RECENTLY AND IS EXPECTED TO FILE A FORMAL COMPLAINT SHORTLY.

3. THE SECRETARY-GENERAL OF FEDIOL, MR. SIEFFERT, GAVE US A COPY OF A LETTER TO COMMISSIONER SOAMES REQUESTING APPLICATION OF REGULATION NO. 459/68. THIS REQUEST, WHICH IS 12 PAGES LONG AND IS ACCOMPANIED BY 15 STATISTICAL ANNEXES, IS APPARANETLY THE "PRELIMINARY PAPER" REFERRED TO BY THE COMMISSION. THE REQUEST STATES THAT THE EC PRODUCERS FOR WHICH FEDIOL IS ACTING AS PLAINTIFF ACCOUNT FOR 100 PERCENT OF COMMUNITY SOYBEAN MEAL PRODUCTION. SIEFFERT SAID THAT FEDIOL IS STILL IMPROVING AND SUPPLEMENTING THIS REQUEST IN RESPONSE TO SUGGESTIONS BY COMMISSION OFFICIALS. THE MAJOR FEATURES OF THE FEDIOL COMPLAINT ARE OUTLINED IN SUBSEQUENT PARAGRAPHS; A COMPLETE COPY OF THE REQUEST FOR COMMISSION ACTION IS BEING SENT TO ED CASEY, STATE EUR/RPE AND RICHARD SCHROETER, FAS.

4. THE ESSENCE OF FEDIOL'S COMPLAINT IS THAT BRAZILIAN EXPORTS OF SOYBEAN MEAL ARE SUBSIDIZED AND THAT THESE SUBSIDIES HAVE CAUSE INJURY TO THE EC INDUSTRY. (THUS, IT WOULD FALL UNDER TITLE II OF REGULATION 459/68 WHICH CONCERNS SUBSIDIES AND COUNTERVAILING DUTIES RATHER THAN UNDER TITLE I WHICH DEALS WITH DUMPING.) SUBSIDIZATION OF BRAZILIAN SOYBEAN MEAL EXPORTS RESULTS FROM:

A. REFUNDING OF THE 14 PERCENT TAX ON INTERNAL SOYBEAN TRANSACTIONS UPON EXPORT OF SOYBEAN OILS AND MEAL. (SINCE A 13 PERCENT TAX IS APPLIED ON EXPORTS OF SOYBEANS, THIS MEANS THAT THE BRAZILIAN PROCESSOR OBTAINS RAW MATERIAL AT A CHEAPER PRICE THAN HIS EUROPEAN COUNTERPART.)

B. PAYMENT OF AN EXPORT SUBSIDY, THE FORM OF A TAX CREDIT, ON SOYBEAN OIL--CURRENTLY SET AT 14 PERCENT. (THE COMPLAINT NOTES THAT AS A RESULT OF US-BRAZIL AGREEMENT, THIS SUBSIDY IS TO BE PHASED OUT AS FOLLOWS: 8 PERCENT JANUARY 1, 1977; 4 PERCENT, JULY 1, 1977; 0 PERCENT, JANUARY 1, 1978.)

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 EC BRU 10333 201856Z

BECAUSE OIL AND MEAL ARE JOINT FINAL PRODUCTS, ANY ADVANTAGE GRANTED TO ONE OF THEM CAN BE REFLECTED IN THE PRICE OF THE OTHER. FEDIOL CALCULATES THAT THE INDIRECT SUBSIDY RESULTING FROM THE COMBINED EFFECT OF THSE TWO PRACTICES IS HIGHER THAN THE ACTUAL COST OF PROCESSING (ESTIMATED AT \$17-\$20 PER M.T.). FOR EXAMPLE, BASED ON JULY 1976 PRICES, THEY CALCUALTED THE SUBSIDY ON THE EXPORT OF OIL AND MEAL RESULTING FROM THE CRUSHING OF ONE TONE OF SOYBEANS AS FOLLOWS:

VALUE OF THE REFUND OF THE 14 PERCENT	
TAX ON SOYBEANS	27.02
VALUE OF THE 14 PERCENT SUBSIDY ON	
OIL EXPORTS	9.31
MINUS THE 5 PERCENT TAX ON SOYBEAN	
MEAL EXPORTS	7.50
NET INDIRECT SUBSIDY	28.83

THE FEDIOL COMPLAINT ALSO NOTES THAT BRAZILIAN SOYBEAN MEAL EXPORTERS BENEFIT FROM REDUCTIONS IN CORPORATION TAXES AND SPECIAL EXPORT CREDIT RATES, BUT IT DOES NOT MAKE ANY CALCULATION OF THE EFFECTS OF THESE ADVANTAGES.

5. AS A RESULT OF THE ABOVE PRACTICES, THE EC CRUSHING INDUSTRY HAS, ACCORDING TO FEDIOL, SUFFERED REDUCED PROCESSING MARGINS, A DECREASE IN CRUSHING ACTIVITY, AND AN INCREASE IN THE FIXED COSTS OF PROCESSING (DUE TO THE REDUCED VOLUME OF PRODUCTION). STATISTICAL DATA USED TO SUPPORT THESE ASSERTIONS SHOW THAT:

A. THE PERCENTAGE OF EC CRUSHING CAPACITY UTILIZED FELL FROM 85 PERCENT IN 1974 TO 72 PERCENT IN 1975.

B. IMPORTS OF SOYBEAN MEAL FROM BRAZIL INCREASED FROM 665,000 IN 1974 TO 1,160,000 TONS IN 1975. AT THE SAME TIME, IMPORTS FROM THE UNITED STATES FELL FROM 2,665,000 TO 2,175,000 TONS AND EC PRODUCTION OF SOYBEAN MEAL FELL FROM 7,101,000 TONS TO 6,563,000 TONS.

D. FOR VIRTUALLY ALL OF 1975, THE COSTS OF PROCESSING SOYBEANS WERE HIGHER THAN THE MARGIN BETWEEN THE PRICE OF SOYBEANS AND COMMUNITY OIL AND MEAL PRICES.

6. THE FEDIOL PAPER ALSO NOTES THAT BRAZILIAN PRODUCTION OF SOYBEAN MEAL IS INCREASING MORE RAPIDLY THAN INTERNAL CONSUMPTION. IN CITIES THE FOLLOWING FACTORS--UNRELATED TO BRAZILIAN PRACTICES--AS ALSO HAVING AN UNFAVORABLE EFFECT ON THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 EC BRU 10333 201856Z

SITUATION OF THE EC INDUSTRY:

A. DUTY-FREE IMPORTS OF MEAL INTO THE EC.

B. THE ZERO DUTY OF FATS AND OILS IMPORTS FROM THE ACP COUNTRIES.

C. REDUCED GSP DUTIES ON FATS AND OILS IMPORTS.

D. SUBSIDIZED EXPORTS BY OTHER COUNTRIES--WHICH HINDER EC EXPORTS OF OILS AND MEALS.

7. SIEFFERT SAID THAT FEDIOL'S ACTION WAS INSPIRED BY SIMILAR (SECTION 301) ACTION TAKEN BY THE U.S. INDUSTRY WHICH RESULTED IN A BRAZILIAN COMMITMENT TO PHASE OUT SUBSIDIES (TAX CREDITS) ON SOYBEAN OIL BY JANUARY 1, 1978. (THE U.S. ACTION IS, IN FACT, NOTED IN THE LETTER TO SOAMES.) HE SAID THAT IF THE COMPLAINT IS ACCEPTED BY THE COMMISSION, A FULL INVESTIGATION WOULD THEN FOLLOW. HE SAID THAT HE DID NOT EXPECT A COMMISSION

DECISION ON ACCEPTANCE OF THE COMPLAINT UNTIL DECEMBER BUT
THOUGHT THAT THIS WOULD BE FAVORABLE. IN THE END,
FEDIOL DOES NOT EXPECT THAT COUNTERVAILING DUTIES WILL
ACTUALLY BE APPLIED TO BRAZILIAN IMPORTS. INSTEAD, THEY HOPE
THAT THEIR COMPLAINT WILL SPARK EC-BRAZILIAN NEGOTIATIONS AND
ULTIMATELY PERSUADE THE BRAZILIANS TO MODIFY THEIR CURRENT
PRACTICES. MORRIS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE COMPLAINTS, ALLEGATIONS, EXPORT SUBSIDIES, COUNTERVAILING DUTIES, SOYBEANS, VEGETABLE OILS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 OCT 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ECBRU10333
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760394-0436
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761034/aaaabczg.tel
Line Count: 176
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 07 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 APR 2004 by ElyME>; APPROVED <10 AUG 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC INDUSTRY COMPLAINT AGAINST BRAZILIAN SOYBEAN MEAL EXPORTS
TAGS: EAGR, EPAP, ETRD, BR, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006